

Rep. Manzullo Emerges As Manufacturing Champion In U.S. House of Representatives

The problem with Congress, says Rep. Don Manzullo (R-Ill.), is that only 40 or 50 representatives are from districts where a majority of the economic activity involves manufacturing. Too few members are cognizant of manufacturing's contribution to the prosperity of the nation.

Manzullo is a man of great vivacity who can affect change. As chairman of the Small Business

Committee and a friend of House Speaker Dennis Hastert (R-Ill.), whose district shares similar industrial attributes, Manzullo is in a position to infuse legislation with programs and policies that are beneficial for the struggling manufacturing sector.

Manzullo's district in northern Illinois is one of the most densely populated manufacturing regions in the country, with Rockford, the

district's largest city, being home to more than 950 factories, many of which specialize in fasteners and machine tool production.

With a zest and rapture that kept propelling him out of his seat, Manzullo met in his Capitol Hill office with *Manufacturing & Technology News* Editor Richard McCormack and discussed his manufacturing agenda. Here's what he had to say:

Question: Are more members of Congress waking up to the challenge confronting U.S. manufacturing?

Manzullo: Yes, because our manufacturing base has been cored out and the government attitude of de-minimus importance of manufacturing has put us in a severe problem. If you don't manufacture and if you don't mine and if you don't have an agriculture base, you become a third-world nation.

Q: When you talk to your manufacturing constituents do they say that this is a problem that will require a government solution?

Manzullo: The biggest problem is we're in a worldwide depression. There is a lack of worldwide demand for new products. But even when consumer confidence comes up, what's left of our industry? Tool and die has been decimated. Foundries are in deep, deep trouble. The fastener industry is having tremendous problems.

Q: Is it a problem of industry whining rather than winning?

Manzullo: No. It's the U.S. government failing to hold China accountable for manipulating its yuan by fixing it permanently to the U.S. dollar. It's undervalued by at least 40 percent. We are starting off with a 40 percent disadvantage. There are many cases where American companies could go head-to-head with the Chinese if the yuan floated against the dollar because of our increased productivity, technology, our skilled workforce and the fact that you don't have to transport things.

Q: Is there anything that Congress can do regarding the yuan?

Manzullo: Maybe. By not allowing their yuan to float against the dollar, they're manipulating their currency and that is in violation of the WTO. The dollar moves by emotion. This is the weirdest thing in the world. If so many people begin to feel the dollar is overvalued, then it comes down.

Q: Treasury Secretary Snow said one sentence about

the dollar on a Sunday morning news show and everything changed.

Manzullo: Snow is great! Snow is great! First of all I love trains, but he understands manufacturing and he doesn't favor the strong dollar. And now Bush has very adroitly redefined what a strong dollar means. THIS IS BRILLIANT! I mean what he's saying is you don't tell people you want a weak dollar because that makes you feel insecure. He says you need a dollar that truly represents its actual value and that's what a strong dollar is. So he redefined the meaning of the terms "strong" and "weak" currency. This is brilliant PR! This is the best that you can get in talking to make the value of the dollar actually represent what it's worth thus enhancing the ability of our exporters and conversely making imports more expensive.

Q: What's your priority in addressing the manufacturing challenge?

Manzullo: We have looked at 10 factors working against U.S. manufacturers (see page 10). In the area of lack of access to capital, we worked over the Small Business Administration to come up with an econometric model that has made more money available to manufacturers to borrow. The government can also stop favoring overseas manufacturers for U.S. weapons. According to the GAO, Northrop Grumman is giving lucrative contracts for the F-35 — the Joint Strike Fighter — to European as opposed to U.S. companies. In fact, Northrop Grumman gave a contract to Spain as opposed to Ingersoll Milling, which is based in Rockford [Ill.]. That helped bankrupt Ingersoll. This is U.S. taxpayers' dollars going to foreign countries to build equipment for our men and women in uniform!



Manzullo: "People are losing their jobs right and left."

(Continued on next page)

Manzullo... (Continued from page eight)

Q: But DOD feels that it can get a better deal from overseas manufacturers so taxpayers save money.

Manzullo: One member of Congress asked me whether orders from the Defense Department are supposed to be a jobs program. I said, "If that is your view, then why don't you buy everything from China? Just contract with China and ask the Chinese to build all of our weapons. You'd be thrilled to do that to save money." And I said, "Who's going to pay the taxes?!" Whose going to have the jobs to pay the taxes to pay the bills?!" When you have members of Congress that don't have a manufacturing background this is what happens.

Q: Do you think the manufacturing sector will improve if demand picks up?

Manzullo: No, I don't. I spend 80 percent of my time on manufacturing issues. I'm consumed by it. My dad was a master machinist and then became a master carpenter and a master chef, a person of tremendous talents. When you grow up in Rockford, Ill., everything involves machinery.

The unemployment rate in Rockford is somewhere around 11 percent, but the figures don't show that a lot of people just give up. They're moving on. They're just moving! They're picking up their families, getting in the car and driving to where they can find a job and they don't show up on the unemployment roles.

The policy of the federal government is to give away our procurement and destroy our manufacturing base in order to buy friends and influence people overseas! That's become a panacea of every administration. As much as I love the president, he has to come to an understanding that you can't woo foreign countries by promising to give them manufacturing. You can give them a check so they can buy something from you, but when you give them the manufacturing, they establish the base and then they wipe you out. That's what's going on.

Q: Have you seen some of your initiatives gaining traction in the Bush administration?

Manzullo: Yeah, we are working it on so many fronts. Jim Clark used to be with Ways and Means as their chief tax attorney and he is now on the Small Business Committee. He re-wrote a version of the Job Protection Act to replace the Foreign Sales Corporation Extraterritorial Income Tax that the WTO ruled illegal. It was actually a blessing in disguise because the bill we came up with rewards manufacturers that keep manufacturing in the United States. The more you manufacture in the United States, the lower your corporate taxes. The more you manufacture overseas the higher your corporate taxes.

Q: Is the republican majority on board?

Manzullo: The Speakers' district is a mirror image of the district that I represent. He's got heavy industry and he's being killed.

Q: What's it like when you go home and talk to your constituents.

Manzullo: People come up to me with tears in their eyes and resumes. It's rough. It's rough. People are losing their jobs right and left. They're not talking about the war. They're not talking about the tax cuts. They're talking about jobs.

Q: Do you think the tax cuts will really help manufacturers?

Manzullo: Sure. We have to move on as many fronts as possible. With the tax cuts, a lot of it is emotional. If people feel the economy is getting better, they'll order new items and the stock market will go up.

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Q: With the tax cuts, do you risk putting money in people's pockets so they buy manufactured goods that are all made in China? Is that something that has to be addressed prior to a new tax cut?

Manzullo: Houses aren't made in China. The housing market continues to boom. But when we increase expensing for businesses to expense \$100,000 a year plus the bonus depreciation, you can write-off most of your equipment in one year.

There will be another tax cut and that one will probably reduce the period of depreciation from 39.5 years down to 10 or 15 years. That breaks into the commercial building cycle. Taco Bell and those national chains have a contractual obligation as a franchise to reface every 10 years. It's difficult to do that when you have a 39.5-year depreciation schedule. But if you bring that down to 10 or 15 years, then you break into the cycle because that creates the demand. When you know you can write something off as opposed to paying taxes, guess what you're going to do? You're going to write it off.

Q: Recently an interesting debate has surfaced concerning big American corporations moving production and sourcing offshore, leaving the little guys to fend for themselves. The big companies looking to sustain their competitiveness are leading to the demise of small- and medium-sized manufacturers. What do you think about that as chairman of the Small Business Committee?

Manzullo: Those little guys don't have a big lobby. But this isn't all black and white because the big issue is there is a lack of demand....Everything is coming to the surface now, isn't it?

Rep. Manzullo's 10 Factors Working Against U.S. Mfg.

1. "Washington" does not understand the importance of manufacturing:

- Some of the rhetoric we hear in Washington includes: "Everyone wants a white-collar job" and "Manufacturing is 'only' one small segment of our economy."

- Government does not understand the "multiplier effect" of manufacturing — \$1 million in manufacturing sales equals eight manufacturing jobs plus six service jobs as compared to \$1 million in service sector sales equals 3.5 service jobs.

We need to educate members of Congress about the current state of small- and medium-sized manufacturers.

2. Surging cost of all insurance (including health care):

- Small business premiums are soaring by 20 percent to 40 percent;

- The percentage of small businesses offering health care benefits is slumping from 67 percent in 2000 to 61 percent in 2002;

- Sixty percent of the nation's 43 million uninsured are small business owners, their employees and their families.

3. Regulations continue to burden struggling businesses:

- Complying with government regulations costs businesses about \$843 billion per year (\$8,164 for a family of four) or 8 percent of GDP.

- The annual regulatory burden is 60 percent higher for small firms with fewer than 20 employees compared to large firms with more than 500 employees.

We must fight government regulation with the Regulatory Flexibilities Act requiring agencies to analyze the economic impact on small business before a regulation is final. Agencies must follow the law.

4. U.S. local, state and federal tax burden:

- The United States has one of the highest corporate tax rates — national and state taxes — at 40 percent, compared with other developed nations which average 31 percent;

- Companies moving outside of the United States to avoid taxes is wrong but our tax system is flawed.

The Job Protection Act of 2003 would lower corporate taxes for domestic manufacturers by 10 percent.

5. Lack of access to capital:

- Fees are too high on SBA loan guarantee programs, making the programs unattractive for most small manufacturer borrowers;

- Banks are reluctant to lend to small manufacturers in the Midwest;

Increase access for small businesses to SBA guaranteed lending programs; raise SBA loan limits for manufacturers; and support the BRIDGE Act (tax deferral initiative) to help small businesses' capital needs.

6. Overvalued U.S. dollar:

- Foreign governments routinely interfere with currency markets to prevent their currencies from appreciating against the dollar.

7. New steel tariffs and corresponding spikes in domestic prices:

- Small manufacturers have seen domestic steel prices rise up to 80 percent;

- U.S. sales are being lost to foreign companies purchasing steel at world prices;

- High steel prices have made manufacturers uncompetitive;

- Big steel producers are breaking existing contracts to arbitrarily raise prices.

The International Trade Commission is studying the impact tariffs are having on steel users. The administration has the opportunity to end steel tariffs at the midterm review period in September 2003.

8. Federal procurement is working against our manufacturers:

- The federal government's \$200 billion annual purchase of goods and services rarely reaches the 23 percent goal for small businesses;

- The federal government is using taxpayer dollars to import goods as opposed to sourcing from domestic manufacturers.

The U.S. must continuously examine Pentagon procurement practices (Army berets / Joint Strike Fighter / titanium) to keep production in the U.S. while fighting unsound contract bundling and consolidation. The House-passed Defense Authorization Bill raises buy-American content requirements to 65 percent from 50 percent and mandates defense contracts greater than \$5 million must use American made machine tools, dies and industrial molds.

9. Export controls and unilateral trade sanctions:

- Export controls and trade sanctions cost \$20 billion to \$40 billion in lost exports per year or roughly 400,000 jobs;

- Export controls place severe limitations on the ability of high-tech manufacturers and machine tool builders to sell "dual use products" to countries not allied with the United States. Other nations do not have these limitations and take away sales from American manufacturers;

- The State Department is using Visa immigration policy to restrict foreign visits of potential buyers of U.S. products;

- Export policies cause U.S. businesses to be unreliable suppliers and allies use export policies against our businesses. Because of counter-productive export controls, the U.S. lost the five-axis machine tool market in China in 1997.

10. Foreign trade barriers:

- Trade barriers currently cost U.S. businesses \$200 billion annually, according to a University of Michigan study;

- The United States is one of the world's most open economies, but domestic producers struggle in an uncertain international tariff environment.

Level the playing field through the use of anti-dumping and countervailing duty trade laws and the Byrd amendment (higher tariffs go to injured companies, not the U.S. Treasury).